

PAW PAW TOWNSHIP

Report on Audit of Financial Statements
For the Year Ended
June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Paw Paw Township	County Van Buren
Fiscal Year End 6-30-06	Opinion Date 12-5-06	Date Audit Report Submitted to State 12-7-06	

We affirm that:

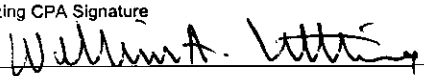
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|---|-------------------------------------|---|
| 1. <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. <input type="checkbox"/> | <input checked="" type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Cutting & Cutting, P.C.		Telephone Number 269-657-4720		
Street Address 303 Paw Paw Street		City Paw Paw	State MI	Zip 49079
Authorizing CPA Signature 		Printed Name William A. Cutting		License Number 1938

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December 5, 2006

INDEPENDENT AUDITOR'S REPORT

Paw Paw Township Board
Paw Paw, Michigan 49079

We have audited the accompanying general purpose financial statements of Paw Paw Township as of June 30, 2006, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of Paw Paw Township management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township's governmental activities and business-type activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Paw Paw Township, as of June 30, 2006, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

Cutting & Cutting, P.C.

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
PAW PAW TOWNSHIP
June 30, 2006

	General	Special Revenue	Capital Projects	Enterprise	Trust & Agency	General Fixed Assets	Total Memorandum (Only)
Assets							
Cash and equivalents	\$ 112,919	\$ 325,094	\$ 586,303	\$ 156,077	\$ 36,241		\$ 1,216,634
Investments	361,943		104,877	157,139	23,260		647,219
Accounts receivable	64,753			26,833			91,586
Interest receivable and other				2,750			2,750
Due from other funds				11,355	13,166		24,521
Total Current Assets	<u>539,615</u>	<u>325,094</u>	<u>691,180</u>	<u>354,154</u>	<u>72,667</u>		<u>1,982,710</u>
Land						\$ 85,126	85,126
Building, equipment, etc.						237,898	3,440,900
Allowance for depreciation				3,203,002			(1,449,779)
Special assessments receivable				(1,449,779)			42,869
				<u>42,869</u>			
Total Assets	<u>\$ 539,615</u>	<u>\$ 325,094</u>	<u>\$ 691,180</u>	<u>\$ 2,150,246</u>	<u>\$ 72,667</u>	<u>\$ 323,024</u>	<u>\$ 4,101,826</u>
Liabilities and Fund Equity							
Accounts payable	\$ 53,004	\$ 28,482		\$ 16,045	\$ 48,510		\$ 97,531
Undistributed receipts							48,510
Due to other funds	<u>22,089</u>			<u>2,432</u>			<u>24,521</u>
Total Current Liabilities	<u>75,093</u>	<u>28,482</u>		<u>18,477</u>	<u>48,510</u>		<u>170,562</u>
Contributions from other governments							921,103
Contributions from customers							1,528,911
Contributions from other funds							150,000
Fund balance (expendable)	464,522	296,612	\$ 691,180				1,452,314
Non-expendable fund balance							
Retained earnings (deficit)				(468,245)	24,157		24,157
Investment in general fixed assets						\$ 323,024	(468,245)
Total Fund Equity	<u>464,522</u>	<u>296,612</u>	<u>691,180</u>	<u>2,131,769</u>	<u>24,157</u>	<u>323,024</u>	<u>3,931,264</u>
Total Liabilities and Fund Equity	<u>\$ 539,615</u>	<u>\$ 325,094</u>	<u>\$ 691,180</u>	<u>\$ 2,150,246</u>	<u>\$ 72,667</u>	<u>\$ 323,024</u>	<u>\$ 4,101,826</u>

See notes to financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES AND
EXPENDABLE TRUST FUND
PAW PAW TOWNSHIP
Year ended June 30, 2006

	<u>Governmental Fund Type</u>			Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Revenues				
Taxes	\$ 271,440	\$ 186,812		\$ 458,252
Licenses and permits	12,191			12,191
Intergovernmental revenues	266,764	1,620		268,384
Charges for services	20,717	26,924		47,641
Interest and miscellaneous	<u>28,536</u>	<u>6,529</u>	\$ <u>23,053</u>	<u>58,118</u>
	599,648	221,885	23,053	844,586
Expenditures				
General government	341,863		45,300	387,163
Public safety	646	126,731		127,377
Highways and streets	216,386			216,386
Community development	<u>30,462</u>			<u>30,462</u>
	<u>589,357</u>	<u>126,731</u>	<u>45,300</u>	<u>761,388</u>
Excess of revenues over expenditures	10,291	95,154	(22,247)	83,198
Other financing sources (uses)				
Transfers in			50,000	50,000
Transfers out	<u>(50,000)</u>			<u>(50,000)</u>
	<u>(50,000)</u>		<u>50,000</u>	
Excess of revenues and other sources over expenditures and other uses	(39,709)	95,154	27,753	83,198
Beginning fund balance	<u>504,231</u>	<u>201,458</u>	<u>663,427</u>	<u>1,369,116</u>
Ending fund balance	\$ <u>464,522</u>	\$ <u>296,612</u>	\$ <u>691,180</u>	\$ <u>1,452,314</u>

See notes to financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL-
GENERAL AND SPECIAL REVENUE FUND TYPES
PAW PAW TOWNSHIP
Year ended June 30, 2006

	<u>General Fund</u>		Variance Favorable (Unfavorable)	<u>Special Revenue Funds</u>		Variance Favorable (Unfavorable)
	<u>Amended Budget</u>	<u>Actual</u>		<u>Budget</u>	<u>Actual</u>	
Revenues						
Taxes	\$ 264,200	\$ 271,440	\$ 7,240	\$ 180,000	\$ 186,812	\$ 6,812
Licenses and permits	15,995	12,191	(3,804)			
Intergovernmental	265,200	266,764	1,564	1,600	1,620	20
Charges for services	22,200	20,717	(1,483)	36,750	26,924	(9,826)
Interest and miscellaneous	17,400	28,536	11,136	1,000	6,529	5,529
	<u>584,995</u>	<u>599,648</u>	<u>14,653</u>	<u>219,350</u>	<u>221,885</u>	<u>2,535</u>
Expenditures						
General government	408,460	341,863	66,597			
Public safety	650	646	4	137,299	126,731	10,568
Public works	230,500	216,386	14,114			
Community development	33,163	30,462	2,701	3,000		3,000
	<u>672,773</u>	<u>589,357</u>	<u>83,416</u>	<u>140,299</u>	<u>126,731</u>	<u>13,568</u>
Excess of revenues over expenditures	(87,778)	10,291	98,069	79,051	95,154	16,103
Other financing sources (uses)						
Transfers out	(50,000)	(50,000)				
Excess of revenues and other sources over expenditures and other uses	<u>\$(137,778)</u>	(39,709)	\$ 98,069	\$ 79,051	95,154	\$ 16,103
Beginning fund balance		<u>504,231</u>			<u>201,458</u>	
Ending fund balance		<u>\$ 464,522</u>			<u>\$ 296,612</u>	

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
PAW PAW TOWNSHIP
June 30, 2006

1. Summary of Significant Accounting Policies

A. Reporting Entity

In accordance with generally accepted accounting principles and Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township (primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Township has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a blended or discretely presented component unit in the Township's financial statements.

B. Fund Accounting

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund - This Fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations and special assessments.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

E. Budgets and Budgetary Accounting

The Township prepares a budget and a budget hearing is held. The budget is adopted at the June meeting for the next fiscal year. The budget is amended from time to time when necessary by the Township Board.

The Township exceeded the appropriated amount as shown on the budget comparison statement on page 14.

F. Total Columns on Combined Statements-Overview

Total columns on the Combined Statements-Overview are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of these data.

2. Property Tax

The Township taxes are levied and become a lien on each December 1st based on the taxable valuation of property located in the Township as of the preceding December 31st. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls.

The 2005 taxable valuation of the Township totaled \$199,730,734 on which ad valorem taxes levied consisted of .836 mill for the Township's operating purposes, and 1 mill for fire protection.

In the summer, the Township also collects the State Education Tax and the Village of Paw Paw Tax.

3. Depreciation

Proprietary fund assets are capitalized and depreciated over their estimated useful lives using the straight-line method.

A summary of proprietary fund type property, plant and equipment at June 30, 2006 follows:

	<u>Sewer Fund</u>	<u>Depreciable Life-years</u>	<u>Depreciation for Period</u>
Sewer equipment	\$ 539,289	10-20	\$ 9,115
Office equipment	258	10	- 0 -
Sewer system	<u>2,663,455</u>	50	<u>54,109</u>
	3,203,002		\$ <u>63,224</u>
Less accumulated depreciation	<u>1,449,779</u>		
	<u>\$ 1,753,223</u>		

4. Surplus Funds

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The township does not have any policies relating to credit, interest rate or foreign currency risks.

The Township's deposits and investments are in accordance with statutory authority.

5. Cash and Investments

The Township maintains deposits in five local financial institutions. The deposits are in checking accounts, money market savings, or certificates of deposit. Certain of the deposits are certificates of deposit with a maturity greater than three months. These deposits have been presented as investments for financial reporting purposes.

<u>Deposits</u>	<u>Bank</u>	<u>Book</u>
Insured (FDIC)	\$ 523,260	\$ 523,260
Uninsured	<u>1,375,019</u>	<u>1,340,243</u>
	1,898,279	1,863,503
Petty Cash on Hand	_____	350
Cash and cash equivalent	\$ <u>1,898,279</u>	\$ <u>1,863,853</u>

6. EMPLOYEES' RETIREMENT SYSTEM--DEFINED CONTRIBUTION

Plan Description

The Township has a defined contribution pension plan covering most elected members of the Township Board and the Deputy Treasurer. This benefit is an insurance-type plan administered under the provisions of Section 401(a) of the Internal Revenue Code.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The plan requires the employer to contribute fourteen percent of the participating employee's gross wages, with immediate vesting. There is also a contract charge of 6 percent plus a participant fee of \$30 per employee covered.

During the period the Township's required and actual contribution amounted to \$12,383, which was fourteen percent of its current period covered payroll of \$88,450 out of a total payroll of \$99,639. The plan is funded through the John Hancock Life Insurance Company and had the following activity since the last report.

Balance, June 30, 2005	\$ 23,671
Add: Contributions	12,383
Investment gains and transfers	<u>869</u>
	13,252
Less: Withdrawals	<u>7,281</u>
Balance, June 30, 2006	\$ <u>29,642</u>

7. Construction Activity

During the year ended June 30, 2006, the Township Board approved a construction project to remodel and expand the township hall at the current site. Construction has started and the Township has incurred \$45,300 in costs on this project. Completion is expected in the fiscal year ending June 30, 2007.

8. At the end of the year under audit, the following funds had a deficit in fund balance or retained earnings in the amounts shown.

Sewer Fund \$ 468,245

9. A summary of changes in general fixed assets follows:

	Balance June 30, 2005	Additions	Balance June 30, 2006
Assets			
Land	\$ 85,126		\$ 85,126
Land improvements	28,760		28,760
Building	84,885		84,885
Machinery and equipment	14,148		14,148
Office furniture and fixtures	<u>110,105</u>		<u>110,105</u>
	\$ <u>323,024</u>	\$ <u>- 0 -</u>	\$ <u>323,024</u>

See note 7 above for information about construction in progress.

10. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Township has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Limits range from \$1,500 to \$2,000,000 based on the particular coverage.

11. Joint Venture

The Township is a member of the Paw Paw Fire Department Board, which is a joint venture along with the townships of Antwerp, Alma and Waverly and the Village of Paw Paw. Board members are appointed by each participating unit. The department was formed to jointly provide fire protection services for the participating units. During the year ended June 30, 2006, the Township contributed \$101,621 as its proportionate share of the Department's costs. Audited financial statements for the Department can be obtained from the Treasurer of the Department.

12. Interfund Receivables and Payables

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General		
Trust and Agency		\$ 10,734
Sewer		11,355
Sewer		
General	\$ 11,355	
Trust and Agency		2,432
Trust and Agency		
General	10,734	
Sewer	<u>2,432</u>	<u> </u>
	\$ <u>24,521</u>	\$ <u>24,521</u>

COMBINING BALANCE SHEET-SPECIAL REVENUE FUNDS
PAW PAW TOWNSHIP
June 30, 2006

	<u>Road Improvement</u>	<u>Fire</u>	<u>Liquor Law Enforcement</u>	<u>Building Inspection</u>	<u>Total</u>
Assets					
Cash and equivalents	\$ <u>146,811</u>	\$ <u>162,313</u>	\$ <u>7,765</u>	\$ <u>8,205</u>	\$ <u>325,094</u>
Liabilities and Fund Balance					
Accounts payable		\$ <u>28,482</u>			\$ <u>28,482</u>
Total Liabilities		28,482			28,482
Fund balance	\$ <u>146,811</u>	<u>133,831</u>	\$ <u>7,765</u>	\$ <u>8,205</u>	<u>296,612</u>
	\$ <u>146,811</u>	\$ <u>162,313</u>	\$ <u>7,765</u>	\$ <u>8,205</u>	\$ <u>325,094</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year ended June 30, 2006

Revenues					
Taxes		\$ 186,812			\$ 186,812
Intergovernmental			\$ 1,620		1,620
Fees				\$ 26,924	26,924
Interest income	\$ <u>3,292</u>	<u>3,056</u>	<u>181</u>		<u>6,529</u>
	3,292	189,868	1,801	26,924	221,885
Expenditures					
Public safety		<u>101,621</u>	<u>1,292</u>	<u>23,818</u>	<u>126,731</u>
Excess of revenues over expenditures	3,292	88,247	509	3,106	95,154
Beginning fund balance	<u>143,519</u>	<u>45,584</u>	<u>7,256</u>	<u>5,099</u>	<u>201,458</u>
Ending fund balance	\$ <u>146,811</u>	\$ <u>133,831</u>	\$ <u>7,765</u>	\$ <u>8,205</u>	\$ <u>296,612</u>

COMBINING BALANCE SHEET-TRUST AND AGENCY FUNDS
PAW PAW TOWNSHIP
June 30, 2006

	Trust and <u>Agency</u>	Current <u>Tax</u>	Cemetery <u>Trust</u>	<u>Total</u>
Assets				
Cash and equivalents	\$ 2,165	\$ 33,179	\$ 897	\$ 36,241
Investments			23,260	23,260
Due from other funds	<u>13,166</u>	<u> </u>	<u> </u>	<u>13,166</u>
	\$ <u>15,331</u>	\$ <u>33,179</u>	\$ <u>24,157</u>	\$ <u>72,667</u>
Liabilities and Fund Balance				
Undistributed receipts	\$ 15,331	\$ 33,179		\$ 48,510
Non-expendable fund balance	<u> </u>	<u> </u>	\$ <u>24,157</u>	<u>24,157</u>
	\$ <u>15,331</u>	\$ <u>33,179</u>	\$ <u>24,157</u>	\$ <u>72,667</u>

BALANCE SHEET
GENERAL FUND
PAW PAW TOWNSHIP
June 30

	<u>2006</u>	<u>2005</u>
Assets		
Cash and equivalents	\$ 112,919	\$ 563,161
Investments	361,943	
Accounts receivable	18,090	53,979
Due from the State of Michigan	46,663	43,183
Due from other funds	<u> </u>	<u>20,000</u>
	\$ <u>539,615</u>	\$ <u>680,323</u>
Liabilities and Fund Balance		
Accounts payable	\$ 53,004	\$ 154,003
Due to other funds	<u>22,089</u>	<u>22,089</u>
Current liabilities	75,093	176,092
Fund balance	<u>464,522</u>	<u>504,231</u>
	\$ <u>539,615</u>	\$ <u>680,323</u>

STATEMENT OF CHANGES IN FUND BALANCE
Year ended June 30

Summary of revenues and expenditures		
Revenues	\$ 599,648	\$ 567,394
Expenditures	<u>589,357</u>	<u>570,633</u>
Excess of revenues over expenditures	10,291	(3,239)
Other financing sources and uses		
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>
Excess of revenues and other sources over expenditures and other uses	(39,709)	(53,239)
Beginning fund balance	<u>504,231</u>	<u>557,470</u>
Ending fund balance	\$ <u>464,522</u>	\$ <u>504,231</u>

STATEMENT OF REVENUES
GENERAL FUND
PAW PAW TOWNSHIP
Year ended June 30

		<u>2006</u>	Variance Favorable (Unfavorable)	<u>2005</u>
	<u>Budget</u>	<u>Actual</u>		
Property taxes	\$ 264,200	\$ 271,440	\$ 7,240	\$ 260,512
Licenses and permits	15,995	12,191	(3,804)	13,732
State shared revenues	265,200	266,764	1,564	257,506
Charges for services	22,200	20,717	(1,483)	14,930
Interest earnings	12,400	27,419	15,019	13,713
Miscellaneous	<u>5,000</u>	<u>1,117</u>	<u>(3,883)</u>	<u>7,001</u>
	\$ <u>584,995</u>	\$ <u>599,648</u>	\$ <u>14,653</u>	\$ <u>567,394</u>

STATEMENT OF EXPENDITURES
GENERAL FUND
PAW PAW TOWNSHIP
Year ended June 30

		<u>2006</u>		
	Amended <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>2005</u>
General government				
Township Board	\$ 144,550	\$ 122,565	\$ 21,985	\$ 111,704
Supervisor	21,575	21,817	(242)	23,276
Clerk	48,025	47,644	381	35,440
Board of Review	2,010	1,093	917	1,135
Treasurer	49,350	50,790	(1,440)	48,626
Assessor	54,050	42,529	11,521	34,097
Election	11,450	(1,120)	12,570	20,759
Building and Grounds	13,500	10,386	3,114	9,427
Cemetery	<u>63,950</u>	<u>46,159</u>	<u>17,791</u>	<u>70,243</u>
	408,460	341,863	66,597	354,707
Fire Board	650	646	4	377
Roads and streets	226,000	213,899	12,101	181,604
Drains	4,500	2,487	2,013	4,238
Planning and zoning	33,045	30,462	2,583	27,581
Capital outlay	<u>118</u>	<u> </u>	<u>118</u>	<u>2,126</u>
	\$ <u>672,773</u>	\$ <u>589,357</u>	\$ <u>83,416</u>	\$ <u>570,633</u>
Contributions to other funds				
Building	\$ <u>50,000</u>	\$ <u>50,000</u>		\$ <u>50,000</u>

BALANCE SHEET
SEWER FUND
PAW PAW TOWNSHIP
June 30

	<u>2006</u>	<u>2005</u>
Assets		
Cash and equivalents	\$ 156,077	\$ 158,680
Investments	157,139	150,000
Accounts receivable	26,833	23,861
Interest receivable	2,750	2,750
Due from other funds	<u>11,355</u>	<u>11,355</u>
Total Current Assets	354,154	346,646
Fixed assets		
Sewer system	2,663,455	2,663,455
Machinery and equipment	<u>539,547</u>	<u>539,547</u>
	3,203,002	3,203,002
Allowance for depreciation	<u>(1,449,779)</u>	<u>(1,386,555)</u>
	1,753,223	1,816,447
Special assessments receivable	<u>42,869</u>	<u>50,669</u>
Total Assets	\$ <u>2,150,246</u>	\$ <u>2,213,762</u>
Liabilities and Fund Equity		
Accounts payable	\$ 16,045	\$ 24,511
Due to other funds	<u>2,432</u>	<u>2,432</u>
Total Current Liabilities	18,477	26,943
Contributions in aid of construction-		
Federal and State grants-net of		
grant funded depreciation	921,103	950,616
Customers	1,528,911	1,517,711
Other funds	<u>150,000</u>	<u>150,000</u>
	2,600,014	2,618,327
Retained earnings (deficit)	<u>(468,245)</u>	<u>(431,508)</u>
Total Fund Equity	<u>2,131,769</u>	<u>2,186,819</u>
Total Liabilities and Fund Equity	\$ <u>2,150,246</u>	\$ <u>2,213,762</u>

STATEMENT OF INCOME AND RETAINED EARNINGS
SEWER FUND
PAW PAW TOWNSHIP
Years ended June 30

	<u>2006</u>	<u>2005</u>
Operating revenues		
Monthly usage charge	\$ 201,462	\$ 200,208
Penalties and other	<u>3,481</u>	<u>1,857</u>
	204,943	202,065
Operating expenses		
Wages and benefits	15,485	18,576
Supplies and software		598
Sewer service charge	133,253	146,373
Professional fees	3,150	4,330
Utilities	5,433	3,966
Repair and maintenance	62,721	31,893
Depreciation	63,224	64,583
Miscellaneous and other	<u>2,084</u>	<u>3,694</u>
	<u>285,350</u>	<u>274,013</u>
Operating income (loss)	<u>(80,407)</u>	<u>(71,948)</u>
Non-operating income		
Interest	<u>14,157</u>	<u>9,029</u>
Net income (loss)	(66,250)	(62,919)
Add back: depreciation on fixed assets acquired by grants not charged to operating expenses	29,513	29,513
Beginning retained earnings (deficit)	(431,508)	(398,102)
Ending retained earnings (deficit)	\$ <u>(468,245)</u>	\$ <u>(431,508)</u>

STATEMENT OF CASH FLOWS
SEWER FUND
PAW PAW TOWNSHIP
Years ended June 30

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 201,971	\$ 183,703
Cash payments to suppliers for goods and services	(215,107)	(199,745)
Cash payments to employees for services	<u>(15,485)</u>	<u>(18,576)</u>
Net cash provided by operating activities	(28,621)	(34,618)
 Cash Flows from Capital and Related Financing activities		
Contributed Capital	19,000	23,900
Interest received on Special Assessments Receivable	<u>3,000</u>	<u>5,850</u>
Net cash used for capital and related financing activities	22,000	29,750
 Cash Flows from Investing Activities		
(Increase) decrease in investments	(7,139)	
Interest received on investments	<u>11,157</u>	<u>3,179</u>
Net cash provided by investing activities	<u>4,018</u>	<u>3,179</u>
 Increase (decrease) in cash	(2,603)	(1,689)
Cash and equivalent prior year end	<u>158,680</u>	<u>160,369</u>
 Cash and equivalent current year end	\$ <u>156,077</u>	\$ <u>158,680</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (80,407)	\$ (71,948)
Adjustments to Reconcile Operating (Income) to Net Cash Provided by Operating Activities:		
Depreciation	63,224	64,583
Changes in assets and liabilities		
(Increase) Decrease in Due from other funds		(11,355)
(Increase) Decrease in accounts receivable (gross)	(2,972)	(7,007)
Increase (Decrease) in accounts payable (operations)	(8,466)	(9,373)
Increase (Decrease) in Due to other funds		<u>482</u>
Total adjustments	<u>51,786</u>	<u>37,330</u>
 Net Cash Provided by Operating Activities	\$ <u>(28,621)</u>	\$ <u>(34,618)</u>

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December 5, 2006

Paw Paw Township Board
Paw Paw, Michigan

The audit work necessary to express an opinion on the financial statements of Paw Paw Township included a review of the Township's accounting procedures and the related internal controls. As a result of this review we offer comments and recommendations for your consideration.

Accounting Issues

For the last several years, bank reconciliations have been a problem area at the Township. This year, the reconciliations were all up to date and the Township staff should be commended.

The records on certificates of deposit were also much improved.

Internal Controls

There is not adequate segregation of duties in the accounting function. However, because of lack of personnel, this situation is not unusual in small governmental units.

The above comments are submitted to you to develop good accounting procedures and are not intended to reflect upon the performance of any individual.

Cutting & Cutting, P.C.